

Does Reducing Unemployment Benefits During a Recession Reduce Youth Unemployment? Evidence from a 50% cut in Unemployment Assistance

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Previous Research - overview

Krueger and Meyer (Handbook.Pub.Econ 2002) & Tatsiramos and Van Ours (Journal of Economic Surveys 2014) report elasticities of duration with respect to benefits between 0.5 and 1.0.

- many of the benefit changes analysed are small
- identification of causal effects is often difficult
- almost all the existing work is pre-Great Recession
- none have been able to look at young workers in detail

Policy Intervention

Table 1: Weekly Rate (€) of Jobseeker's Allowance for **NEW CLAIMANTS**
2009-2010

	2009		2010
Age	January	May	January
18	204.30	100.00	100.00
19	204.30	100.00	100.00
20	204.30	204.30	100.00
21	204.30	204.30	100.00
22	204.30	204.30	150.00
23	204.30	204.30	150.00
24	204.30	204.30	150.00
25+	204.30	204.30	196.00

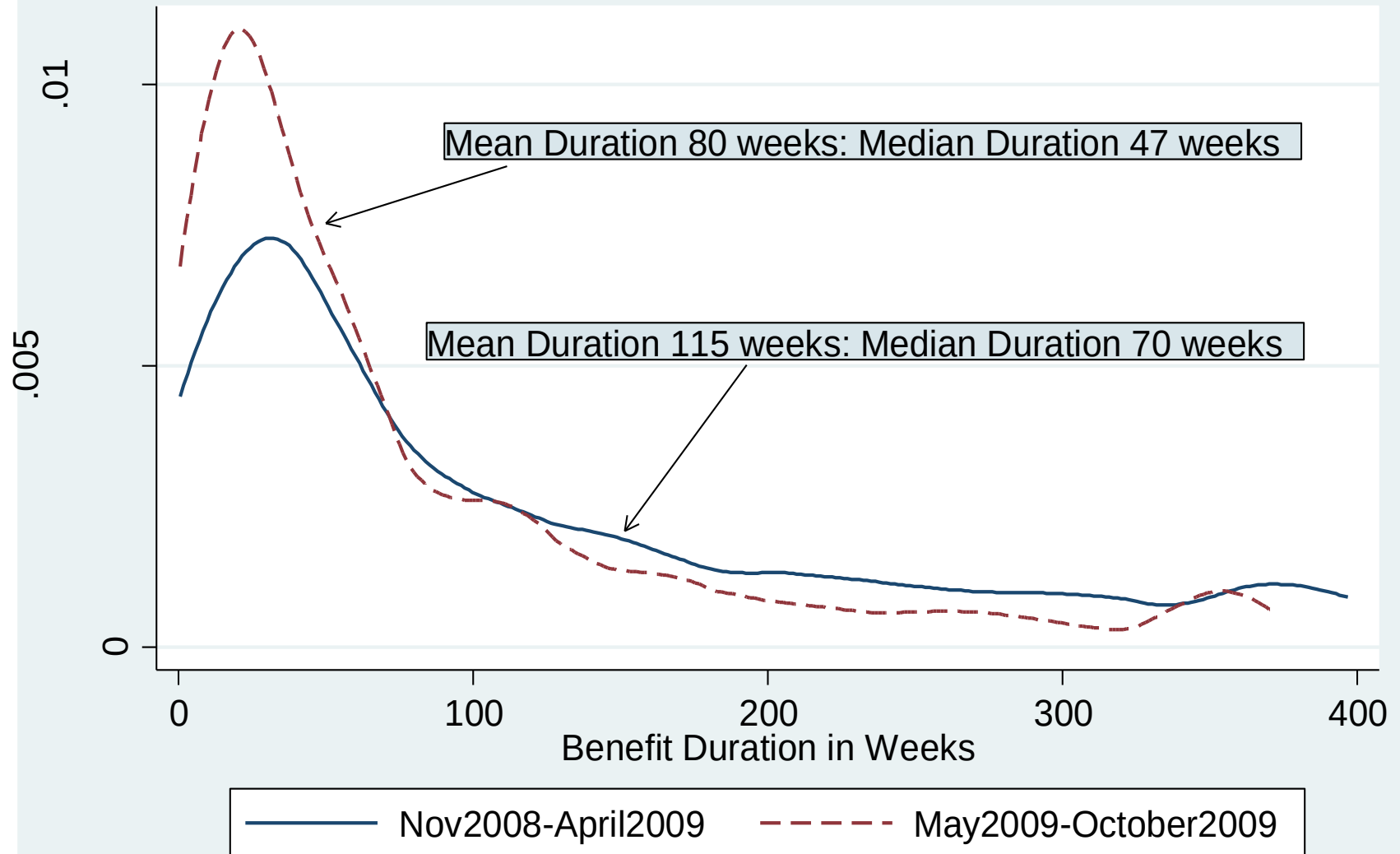
Data

The Jobseekers Longitudinal Dataset

- DSP Project building on multiple data sources.
- Records of every benefit events/episodes back to 2004
- **Our Data** covers all claims initiated by 18-21 year olds between 1st January 2007 and 31st December 2014. In this presentation I restrict sample to males.
- Claims are followed from commencement through to the 12th June 2016.
 - Total of over 30,000 episodes.
 - Start and end dates of every episode on Jobseekers at the administrative scheme level
 - In addition DSP record the payment paid to claimant and whether or not this claimant was subject to legislative cut.
- Includes earnings data from Revenue P35 tax files for every year from 2007-2014

UA Duration Densities for 18 year olds males

November 2008-October 2009

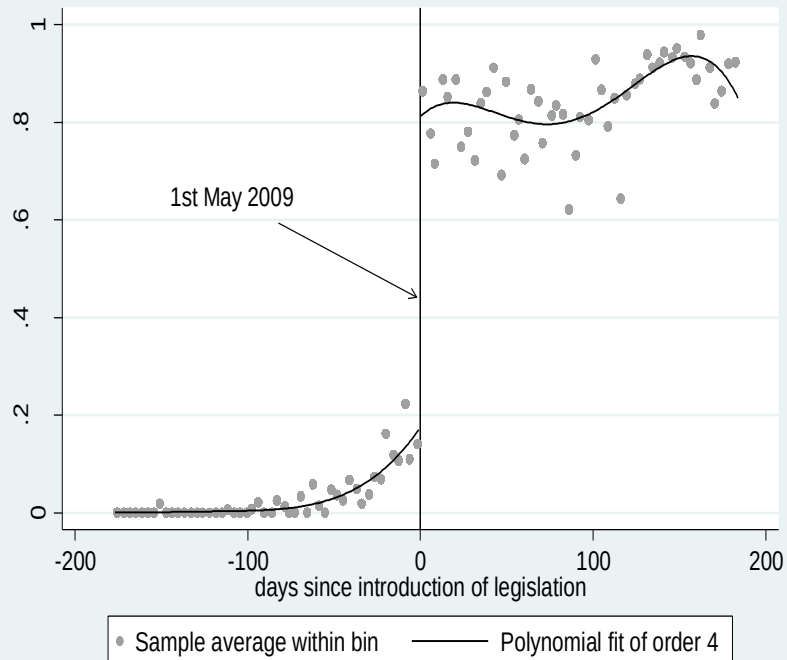


Our Econometrics Approaches

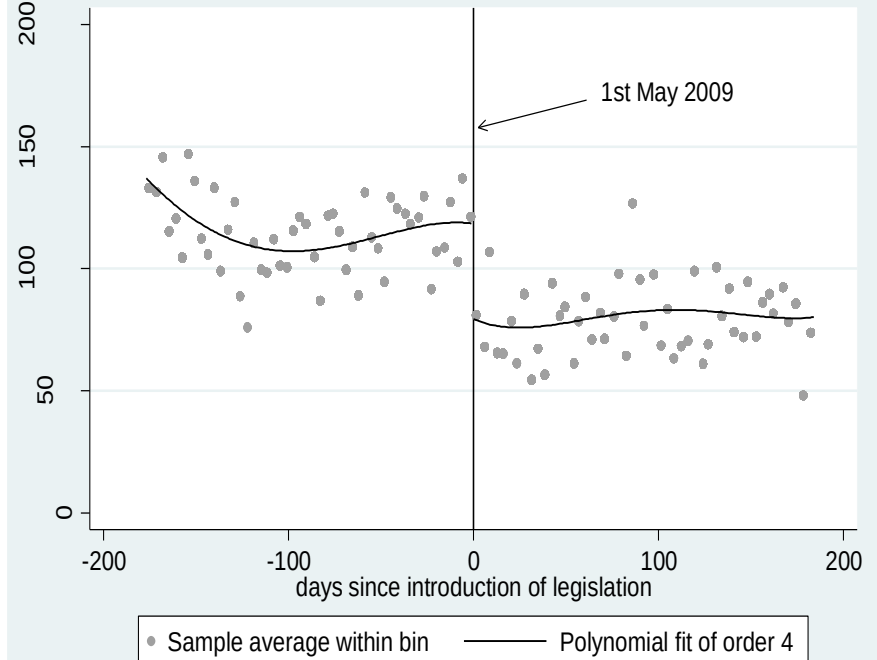
- **Regression Discontinuity** approach (Lemieux and Milligan, J.Econometrics 2008)
- **Difference-in-Difference Hazard** approach (Fortin et al., J.Public.Econ 2004)

RD Results: 18 Year Olds

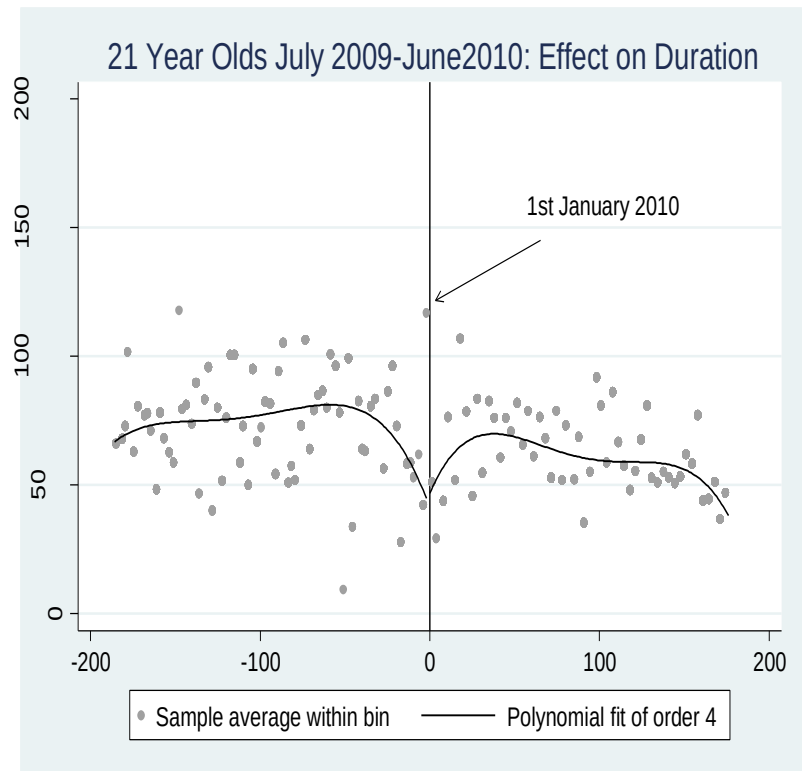
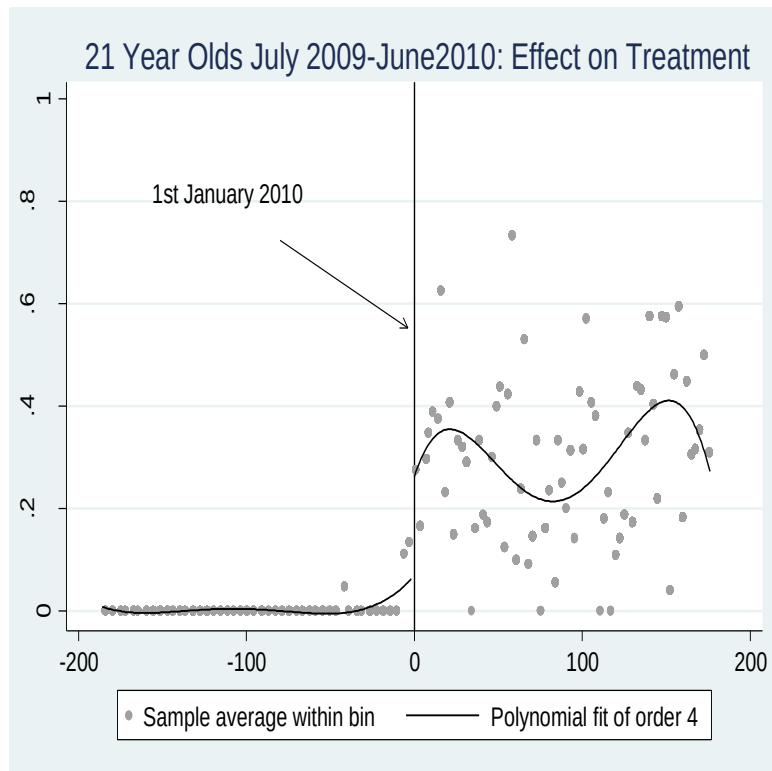
18 Year Olds Nov 2008-October 2009: Effect on Treatment



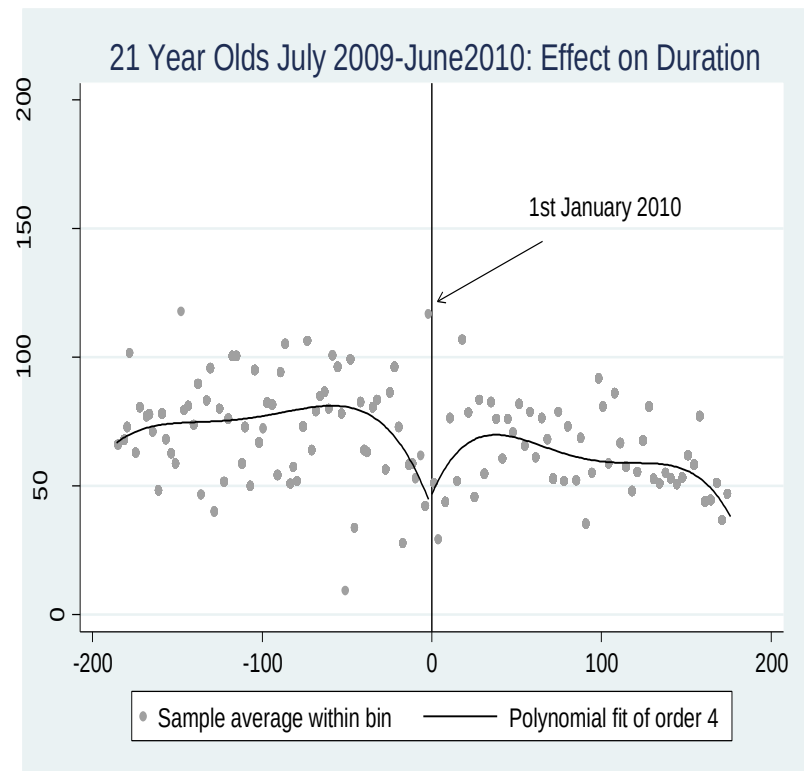
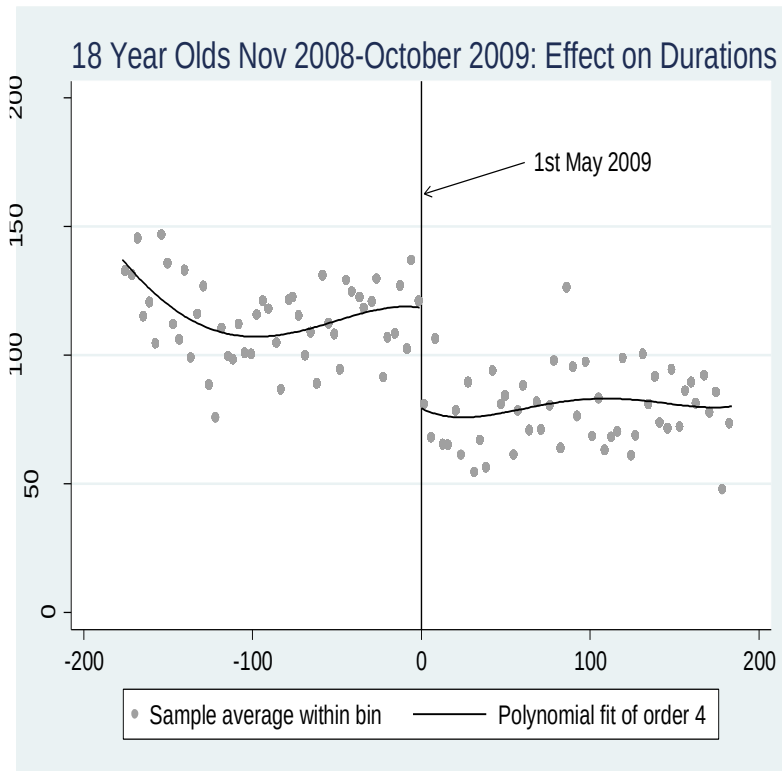
18 Year Olds Nov 2008-October 2009: Effect on Duration



RD Results: 21 Year Olds 2010



18 year olds versus 21 year olds



RD Results Table & Elasticities

(Standard Errors in Parentheses)

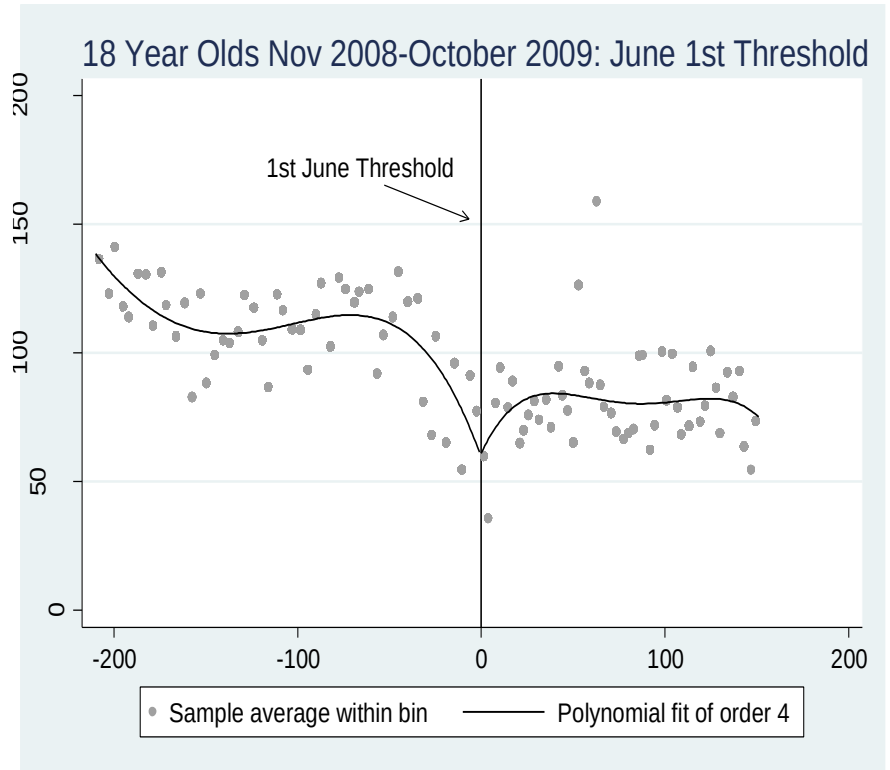
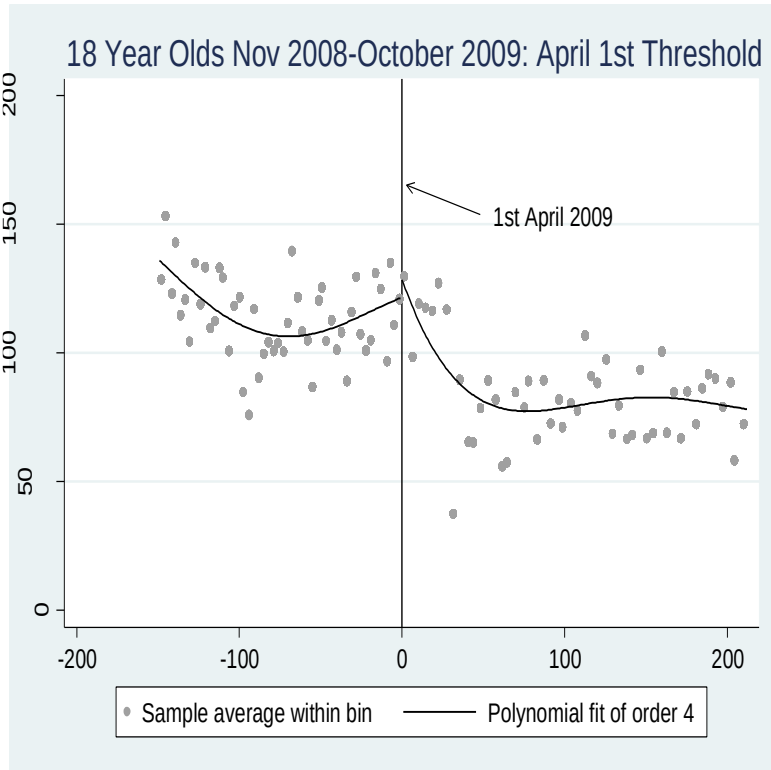
Table 3: Fuzzy Regression Discontinuity Results for Four Benefit Cuts
Standard Errors in Parentheses

Notes: *** Denotes significant at the 1% level. ** Denotes significant at the 5% level.

	Age 18 2009	Age 19 2009	Age 20 2010	Age 21 2010
First Stage: Effect on Proportion Treated	0.65*** (0.05)	0.37*** (0.07)	0.25** (0.10)	0.18** (0.08)
Effect of Treatment on Unemployment Duration	-60.96** (23.11)	-49.81 (37.92)	-16.73 (82.52)	2.28 (65.66)
N	6323	4598	3917	4253
Elasticity Calculations				
Mean Unemployment Spell Duration Before Treatment (Weeks)	114.77	90.42	78.03	75.05
Estimated Duration Change (%)	-53.11	-55.09	-21.44	+3.03
Benefit Change (%)	-50.9	-50.9	-50.9	-50.9
Estimated Elasticity	1.04	1.08	0.42	-0.06

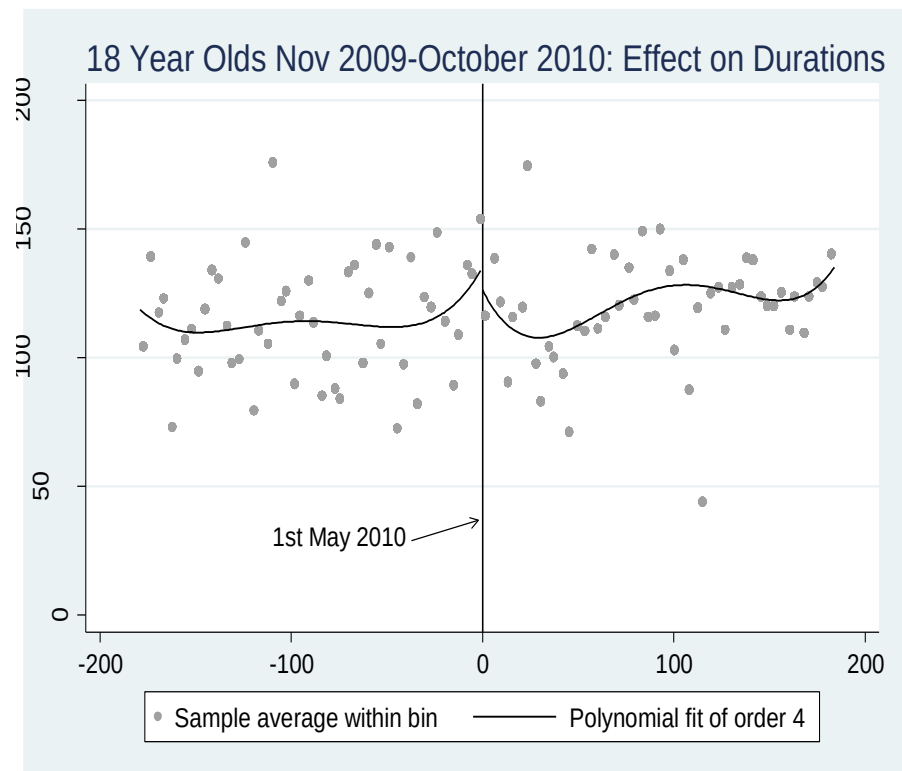
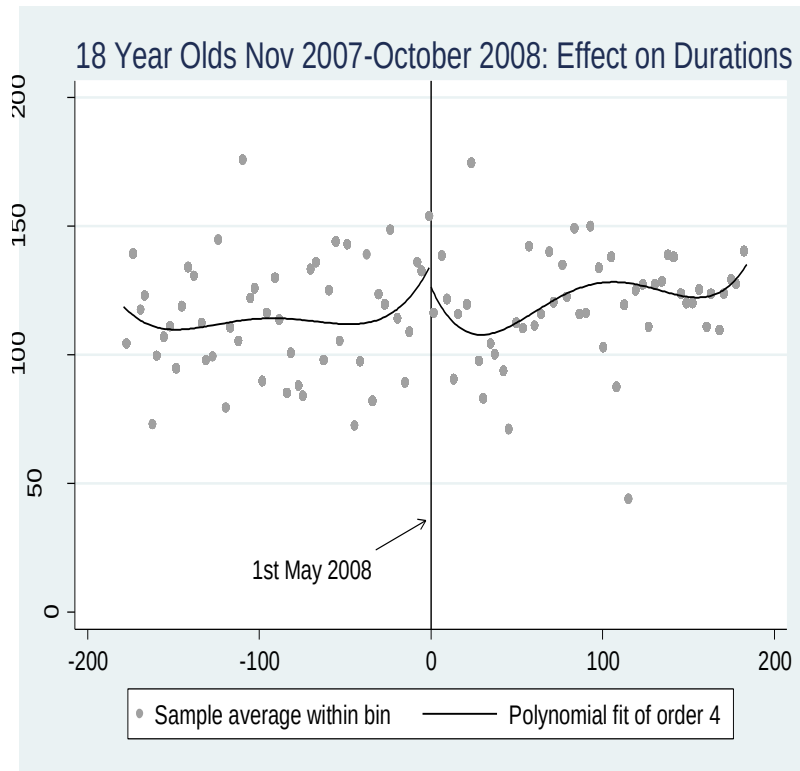
Robustness Checks:

1. Different Thresholds



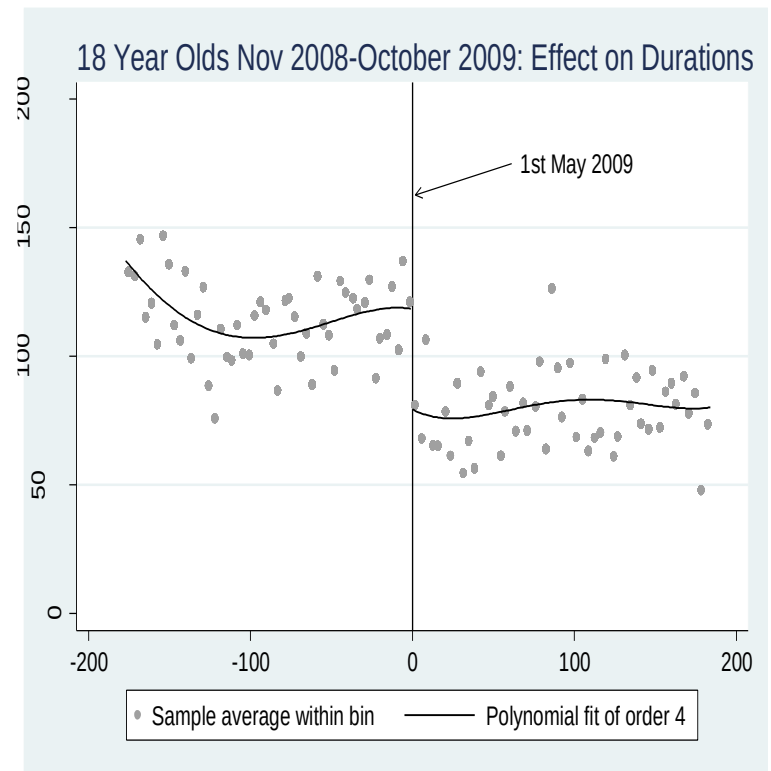
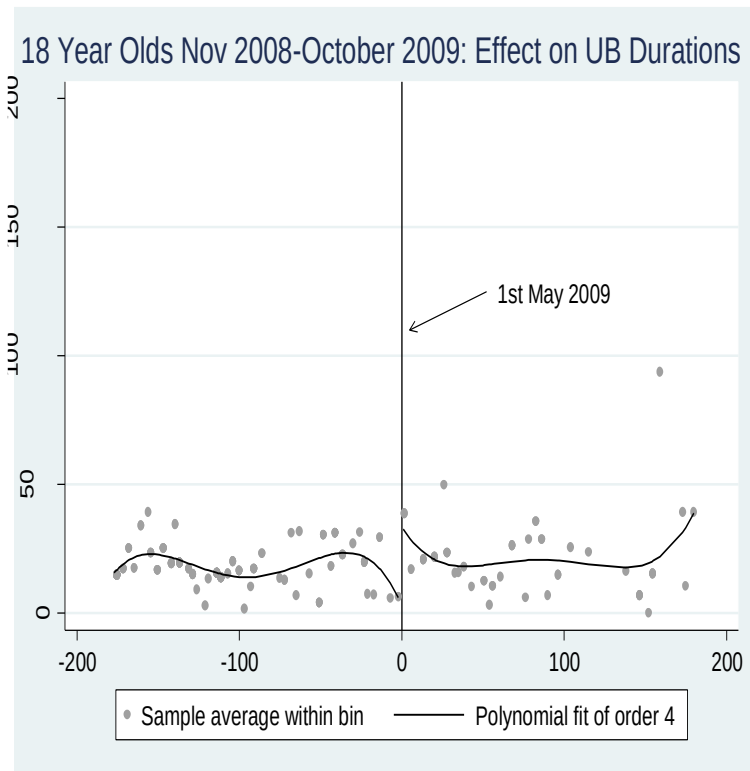
Robustness Checks:

2. Different Years



Robustness Checks:

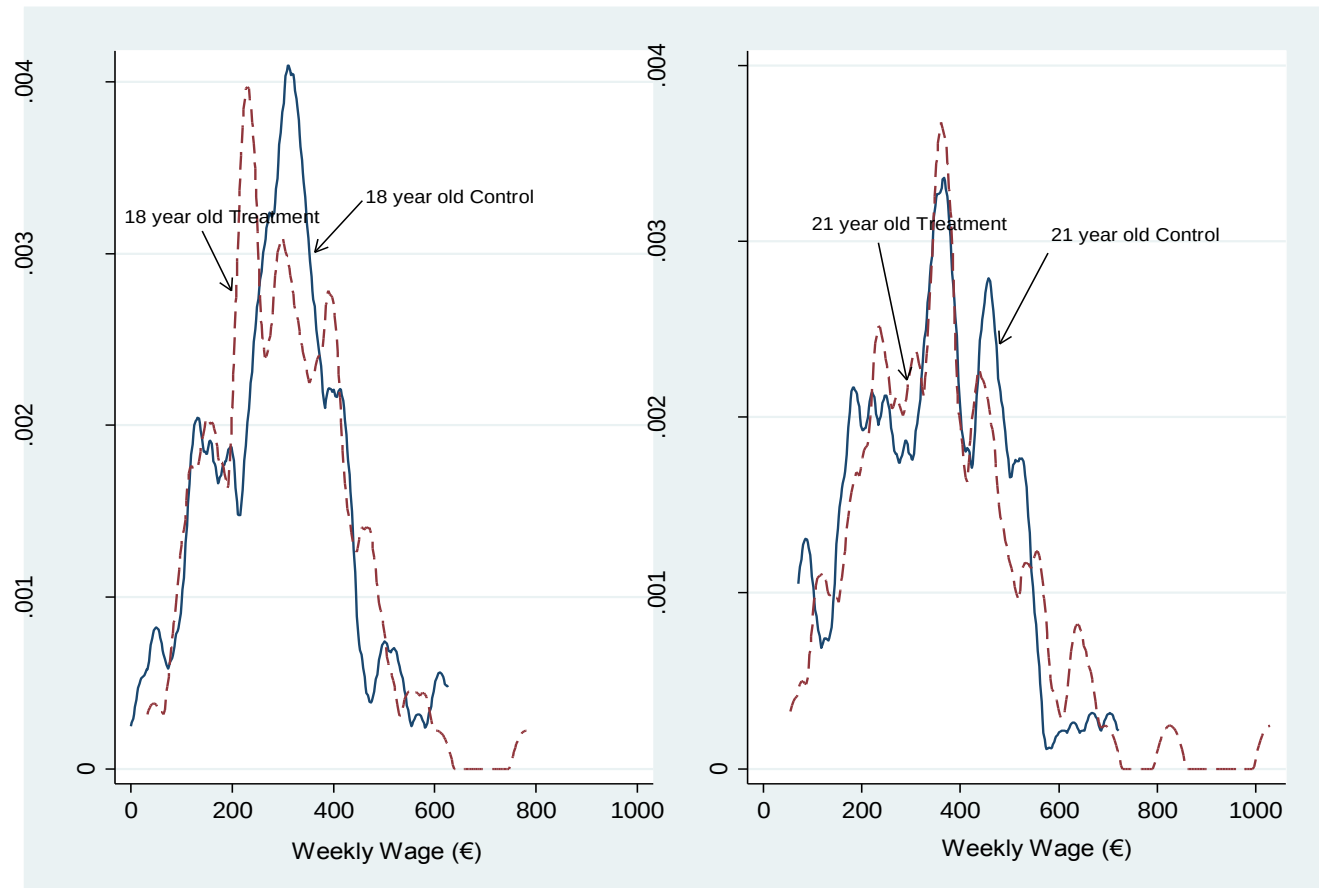
3. UB rather than UA



Where are they going when they leave unemployment?

- Carry out a Competing Risk examination of duration effect for 18 year olds
 - Exits to Education and Inactivity unimportant
 - Exits to Training, Work and “Other” all contribute to shorter durations.

Kernel Densities of Weekly Wages in Year of Exit from Unemployment by Treatment Status: 18 Year Olds (left panel) and 21 Year Olds (right panel)



Summary

- Large and Significant response to benefit cuts by 18 year old claimants.
- Unable to detect significant effects for the other age groups analysed.
- No one exit state dominated the labour supply response and the interaction of policies may be important.
- Limited Evidence of Long-Run Effect

Males v Females

